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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20278-0001

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| MARKET-DOMINANT PRICE CHANGE | Docket No. R2021-1 |

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 6**
(November 3, 2020)

The Postal Service hereby responds to Chairman's Information Request No. 6, issued on October 30, 2020. The question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**First-Class Mail**

The Commission's rules require the Notice to be accompanied by certain information. 39 C.F.R. § 3030.512(b). "The Postal Service shall . . . identify and explain discounts that are set substantially below avoided costs and explain any relationship between discounts that are above and those that are below avoided costs." *Id.* § 3030.512(b)(6). The Postal Service shall also provide "[a] discussion that demonstrates how the planned rate adjustments are designed to help achieve the objectives listed in 39 U.S.C. [§] 3622(b) and properly take into account the factors listed in 39 U.S.C. [§] 3622(c)." *Id.* § 3030.512(b)(7). The Postal Service shall further provide "[s]uch other information as the Postal Service believes will assist the Commission to issue a timely determination of whether the planned rate adjustments are consistent with applicable statutory policies." *Id.* § 3030.512(b)(12). Multiple commenters question whether the Postal Service has substantially complied with these requirements.[2]

a. Please provide an explanation regarding the Postal Service's proposal to maintain the Bulk Letters—Automation 5-Digit Letters workshare discount at $0.030, producing a passthrough of 78.9 percent.

b. Please provide an explanation regarding the Postal Service's proposal to set the Bulk Letters—Nonautomation Presort Letters workshare discount at $0.050, producing a passthrough of 65.8 percent.

c. Please provide a detailed analysis of how the Postal Service's proposal to raise First-Class Mail Presorted Letters/Postcards by 2.163 percent is designed to help achieve the objectives listed in 39 U.S.C. § 3622(b) and properly takes into account the factors listed in 39 U.S.C. § 3622(c).

[2] See generally Comments of the National Postal Policy Council, October 29, 2020; Comments of Pitney Bowes Inc., October 29, 2020, at 3; see also Comments of the National Association of Presort Mailers, October 29, 2020, at 3-4; Comments of the Association for Postal Commerce, October 29, 2020, at 2-3.

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**Response:**

a.

As an initial matter, the Postal Service respectfully disagrees that the discount for Bulk Letters—Automation 5-Digit Letters ("5-Digit Letters") is set substantially below its avoided costs, as the Commission has previously favorably reviewed lower passthroughs for 5-Digit Letters without concluding that the Postal Service set the discount substantially below avoided costs. *See* Docket No. R2015-4 (proposing a passthrough of 74.2 percent for 5-Digit Letters without receiving a request for explanation); *see also* Docket No. R2020-1 (proposing a passthrough of 53.3 percent for Bulk Letters—Nonautomation Presort Letter without receiving a request for explanation).

The Postal Service's decision to maintain the 5-Digit Letters workshare discount at $0.030 is an appropriate exercise of its pricing flexibility (Objective 4), and one that helps assure adequate revenues for the Postal Service by increasing cost coverage and net revenue (Objective 5). Despite a workshare passthrough below 100 percent, 5-Digit Letters volume has increased by 17.5 percent in the past five years, and in each of the past ten years it has increased as a share of total Automation Letters volume. With volume holding relatively firm, the Postal Service judges that the current $0.030 workshare discount can be maintained, and any relative price relief with the aim of stimulating volume and enhancing revenue is best directed elsewhere. Due to an increase in the estimated avoided cost from $0.034 a year ago to $0.038, this pushes the workshare passthrough down from 88.2 percent to 78.9 percent. But there is volatility associated with such estimates. Only two years ago, the estimate was $0.032. To slavishly follow the estimates year by year could compromise price predictability and stability (Objective 2). Before committing to an increase in the workshare discount, it is best to first gain a sense if the 18.75 percent increase in the avoided cost from two years ago ($0.038 vs. $0.032) is a matter of permanence—especially when this is likely to be a revenue-enhancing strategy as well.

b.

The Postal Service also respectfully disagrees that the Bulk Letters—Nonautomation Presort Letters ("Nonautomation Letters") workshare discount is set substantially below its avoided costs. Last year, the Commission favorably reviewed a workshare discount for Nonautomation Letters with a passthrough of 53.3 percent, which is lower than this year's passthrough of 65.8 percent, without requesting an explanation. Docket No. R2020-1.

The Postal Service faces challenges pricing the Nonautomation Letters' workshare discount given its relationship to Mixed AADC Letters. The Postal Service has a policy of encouraging automated mail pieces over nonautomated, and it does so by offering deeper discounts to automated mail pieces. Generally, this policy promotes efficiency and reduces costs, but it can also create pricing challenges for the Postal Service under certain circumstances. The Postal Service must price Mixed AADC Letters to be lower than Nonautomation Letters due to the combination of the above articulated policy and the products' shared workshare benchmark (Objectives 1, 4).

However, the Postal Service cannot price Nonautomation Letters in alignment with this policy while maintaining a 100 percent (or under 100 percent) passthrough, given its lower cost avoidance as compared to Mixed AADC Letters and the two products' shared workshare benchmark of Metered Letters. Adding to this challenge is the fact that Nonautomation Letters are a mix of presort levels; the mix of presort levels causes the cost avoidance for Nonautomation Letters to be higher than the cost avoidance for Mixed AADC Letters, because Mixed AADC Letters do not include any AADC or 5-Digit Presorted Letters. In Docket No. R2021-1, the cost avoidance for Nonautomation Letters is $0.076 while the avoided cost for Mixed AADC Letters is $0.067. Moving the Nonautomation Letters passthrough closer to 100 percent while making sure the price is higher than the Mixed AADC price would result either in the Mixed AADC passthrough being above 100 percent, or alternatively diminishing the discount between Nonautomation and Mixed AADC to the point where it is meaningless. The Postal Service believes that setting the Nonautomation Letters passthrough at 65.8 percent provides the best balance between maintaining a discount between Nonautomation Letters and Mixed AADC Letters while keeping the Mixed AADC passthrough below 100 percent (Objective 4).

c.

As previously stated, the Postal Service's pricing decisions reflect a multi-year strategy. When viewing the Postal Service's pricing decisions for Presort Letters/Cards over the last several years in context with its pricing decisions for the rest of First-Class

Mail, the Postal Service's varying of above-average and below-average increases across the class is in furtherance of maintaining a just and reasonable rate schedule (Objective 8), the Postal Service's pricing flexibility (Objective 4), and balancing the effect of rate adjustments on the general public and business users (Factor 3). In contrast, requiring that Presort increases be below average on a permanent basis, while assigning above-average increases to the other categories permanently, would frustrate Factor 3 and, eventually, Objective 8, and would also vitiate any business judgment on the part of the Postal Service, thus undoing Objective 4.

Additionally, as demonstrated below, the price adjustments over the years for Presort Letters/Cards have been predictable and fluctuated within reason (Objective 2).

**Table 1**

**First-Class Mail Class Average Price Increases Compared to First-Class Mail Presorted Letters/Postcards During Five Most Recent Price Changes**

| Docket [A] | First-Class Mai Price Increase [B] | Compounded Total First-Class Mail Price Increase [C] | First-Class Mail Presorted Letters/Postcard Increase [D] | Compounded First-Class Mail Presorted Letters/Postcard Increase [E} | Delta For Docket Only [B-E] | Delta For Compounded Dockets [C-F} |
|---|---|---|---|---|---|---|
| R2017-1 | 0.778% | N/A | -0 243% | N/A | 1.021% | N/A |
| R2018-1 | 1.927% | 2.720% | 1 585% | 1.338% | 0.342% | 1.382% |
| R2019-1 | 2.464% | 5.251% | 0 970% | 2.321% | 1.494% | 2.930% |
| R2020-1 | 1.548% | 6.880% | 1 607% | 3.965% | -0.059% | 2.915% |
| R2021-1 | 1.835% | 8.842% | 2.163% | 6.214% | -0.328% | 2.627% |

Source: PRC CapCalc files closing each of the five Dockets.

Table 1 above shows the average price increases for First-Class Mail for the most recent five price changes dating back to Docket No. R2017-1, and it compares these increases to the price changes for First-Class Mail Presorted Letters/Postcards both for the proposed price adjustments and on a compounded basis. Although the Postal Service is proposing First-Class Mail Presorted Letter/Postcard prices in Docket No. R2021-1 that are higher than the average for the First-Class Mail class by 0.328 percent, this is only the second time in five years (and five price changes) that the Postal Service has proposed First-Class Mail Presorted Letter/Postcard prices that are higher than average. Over the past five years, the Postal Service has increased First-Class Mail Letter/Postcard prices by a compounded 6.214 percent, which is 2.627 percent less than the compounded average price increase for the entire mail class.

One reason that the price increases for First-Class Mail Presorted Letter/Postcards cannot be perpetually below the mail class average and grow substantially less than the mail class average is because First-Class Mail Presorted Letters uses Metered Letters as a benchmark for its workshare discounts. If the gap between the growth rates for Presorted and Metered Letters were to become too wide, the workshare discount passthroughs would inevitably increase above 100 percent. Because workshare discounts are currently required to stay below 100 percent (or meet a statutory exception), the First-Class Mail Presort Letter prices have to move at reasonably close to the same level as the mail class average to avoid allowing the workshare passthroughs to increase above 100 percent.

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**Special Services**

2. Please explain the Postal Service's rationale for its proposal to raise Stamp Fulfillment Services by 1.293 percent, which is less than the average increase applied to the Special Services class.[3]

**Response:**

Due to the COVID-19 pandemic, which has caused customers to shift their purchasing habits away from in-person retail and toward online ordering where possible, Stamp Fulfillment Services volumes have increased significantly. The Postal Service believes this may result in SFS revenue exceeding costs for FY 2020.

Further, while the pandemic remains ongoing, it would not make sense, from an employee and customer health perspective, to send pricing signals that discourage online ordering of stamps. The somewhat below-average 1.293 percent increase for SFS should generate additional revenue while keeping SFS prices low enough to continue encouraging fulfillment through SFS rather than at local retail units, helping protect both customers and employees.

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[3] See Docket No. ACR2019, Annual Compliance Determination, March 25, 2020, at 67; Public Representative Comments, October 29, 2020, at 12-13.